



# TURNPIKE SYSTEM

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008



**Front cover photos: Construction photos of the Spaulding Turnpike Extension, north of the Rochester Tolls, July 2008. The scope of the project includes replacement of the bridges at exits 11 & 12, and the eventual widening of the roadway between exit 12 and exit 16. Photos courtesy of Nasser Yari.**

New Hampshire Turnpike System  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2008

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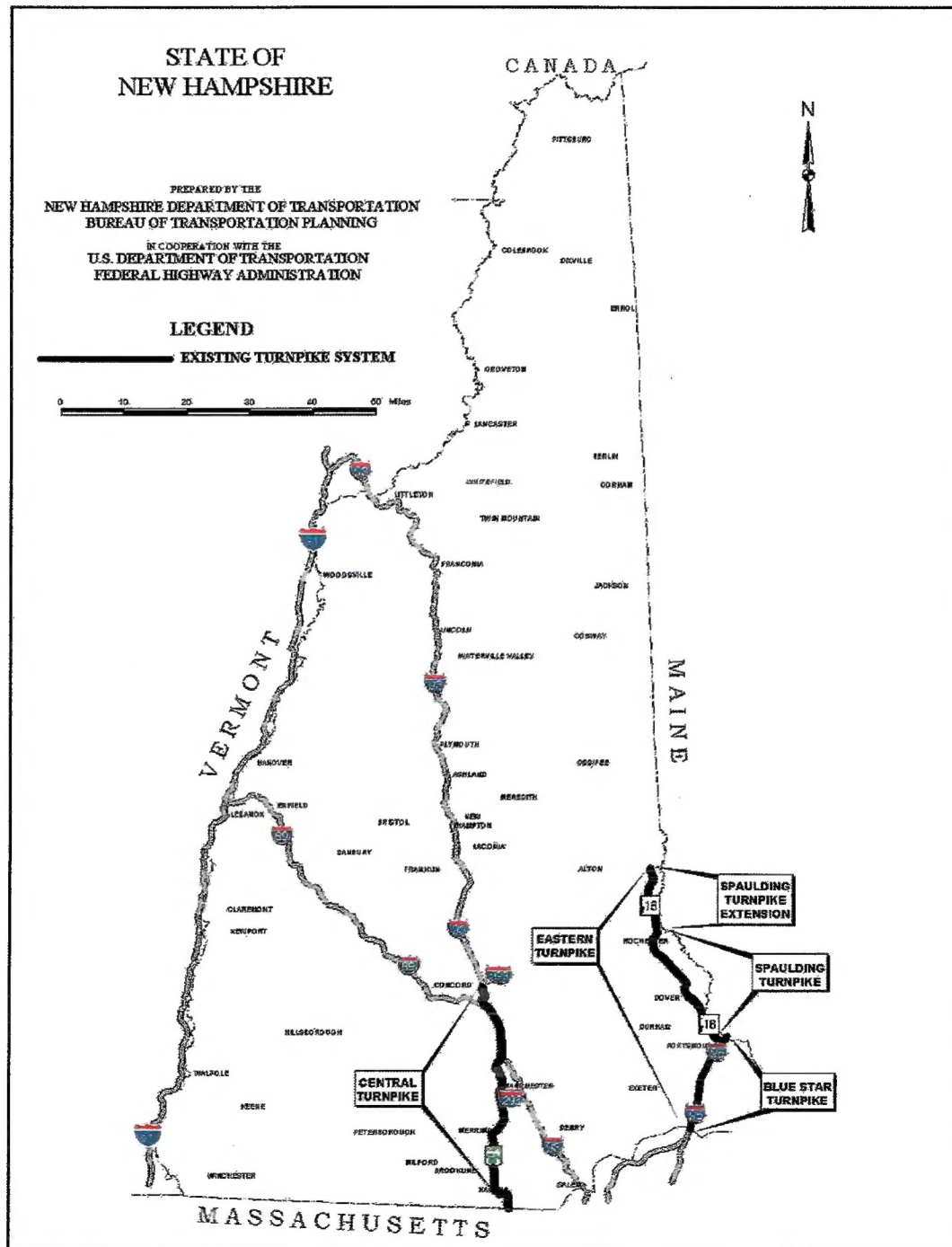
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# INTRODUCTORY SECTION

This section includes a transmittal letter addressed to the citizens and the Governor of the State of New Hampshire, an overview of the Turnpike System, and an organizational listing of the principal officials.



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**THE STATE OF NEW HAMPSHIRE**  
**DEPARTMENT OF TRANSPORTATION**



**GEORGE N. CAMPBELL, JR.**  
**COMMISSIONER**

**JEFF BRILLHART, P.E.**  
**ASSISTANT COMMISSIONER**

December 18, 2008

To: The Citizens of New Hampshire,  
His Excellency the Governor, and the Honorable Council,

We are pleased to submit the Comprehensive Annual Financial Report of the New Hampshire Department of Transportation Turnpike System as of and for the fiscal year ended June 30, 2008. Significant recent developments affecting the Turnpike System during this fiscal year include the following:

- Toll rate increase on October 22, 2007
- Aggressive scheduling of high priority construction projects alleviating congestion and addressing safety concerns
- Increased participation in the E-ZPass Program (40% as of 6/30/06, up to 57% as of 6/30/08)
- Skyrocketing fuel costs and deteriorating economic conditions leading to a decline in Turnpike System traffic during the spring and summer of FY08

The Department of Transportation, Bureau of Finance and Contracts, prepared this report. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results in operations, and cash flows of the Turnpike System. All disclosures necessary to enable the reader to gain an understanding of the Turnpike's financial activities have been included.

This report is divided into three sections: Introductory, Financial, and Other Information. The introductory section includes this transmittal letter and an organizational chart. The financial section contains the independent auditors' report, management's discussion and analysis (MD&A), and the financial statements with accompanying notes. The other information section includes other relevant financial and operational information.

GASB Statement 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The Turnpike System is also included within the State's Comprehensive Annual Financial Report. However, the report that follows here presents all activities of the Turnpike as a single enterprise fund and does not include data or information related to any other state agency or fund.

This annual report may also be viewed on the State of New Hampshire - Department of Transportation website located at <http://webster.state.nh.us/dot/media/publications.htm>.

# **THE TURNPIKE SYSTEM**

## ***General Description***

The Turnpike System, as shown on the map on the Introductory Section cover page, presently consists of 93 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 631 total lane miles. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System consists of three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, (which are collectively referred to as the Eastern Turnpike), and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire.

No food, gas or vehicle service facilities are located on the Turnpike System, with the exception of vending machines at the Hooksett and Seabrook rest areas. Motorist services are located near most interchanges on the Turnpike System and are privately operated. State operated liquor stores are located at two rest areas on the Central Turnpike (I-93) and at two sites along the Blue Star Turnpike (I-95). The Bureau of Turnpikes does not receive any revenue from the liquor store operations, which are operated by the State's Liquor Commission, or from the vending machines, which are operated by the State's Department of Administrative Services.

## ***The Eastern Turnpike***

### **Blue Star Turnpike (I-95)**

The Blue Star Turnpike segment of the Turnpike System extends from the Massachusetts state line in Seabrook, New Hampshire to the Portsmouth Traffic Circle in Portsmouth, New Hampshire. It is 15.0 miles in length and constitutes a portion of U.S. Interstate Highway 95. The Blue Star Turnpike serves as the major connecting road between the states of Maine and Massachusetts. It also parallels the seacoast and, as such, is the major artery for tourist traffic to the New Hampshire coast from Massachusetts and Maine. The route also connects with several major highways in New Hampshire, including Route 101, Route 4 and the Spaulding Turnpike. Two toll plazas are located in Hampton, one for main line traffic and one for vehicles entering and leaving the Turnpike System at NH 101.

Hampton also has both a maintenance and a park and ride facility to encourage car-pooling. The Seabrook Welcome Center provides a rest area, vending machines, and parking for automobiles and commercial vehicles. This relatively new facility provides a larger building than the former Seabrook rest area, allowing for increased convenience of the Turnpike System patrons.

### **Spaulding Turnpike**

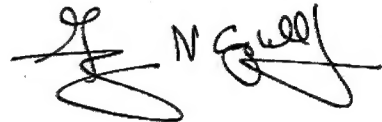
The Spaulding Turnpike segment of the Turnpike System, including the 11.2-mile Spaulding Turnpike extension, extends from Portsmouth, New Hampshire to Exit 18 in Milton, New Hampshire. It is 33.2 miles in length and is the major north-south artery connecting the three major urban centers on the eastern side of the State. This segment of the Turnpike System connects the Blue Star Turnpike (I-95) to Route 16 (the major roadway to northern New Hampshire in the eastern portion of the State). It also connects the major cities of Portsmouth, Dover and Rochester, as well as intersects with several major highways (Routes 4, 16 and 125). It has two toll plazas located in Dover and in Rochester, with a maintenance facility located in Dover. Maintenance on the Spaulding Turnpike extension is provided by the Department of Transportation's Bureau of Highway Maintenance and billed to the Bureau of Turnpikes. In addition, for the convenience of the Turnpike System patrons, a rest area with rest rooms and picnic facilities is provided at Hilton Park in Dover.



### ***The Central Turnpike (F.E. Everett)***

The Central Turnpike, commonly known as the F.E. Everett Turnpike, extends from the Massachusetts state line in Nashua, New Hampshire to Exit 14 in Concord, New Hampshire. It is 44.7 miles in length and constitutes a portion of U.S. Interstate Highways 93 and 293. The Central Turnpike connects three urban centers in New Hampshire (the cities of Concord, Manchester, and Nashua). The route also intersects with the major east-west roads of Route 101, Route 4 and I-89. Six toll plazas are located on the Central Turnpike: two at Hooksett (main line and ramp), a main line plaza in Bedford, and ramp plazas at Bedford Road, Exit 11 and Merrimack Industrial Interchange, all in Merrimack. There are maintenance facilities at Nashua, Merrimack and Hooksett. Park and ride facilities are provided in Hooksett and Nashua. In addition, two rest areas for information and rest room facilities are provided in Hooksett for the convenience of Turnpike System patrons. The Central Turnpike also has a Welcome Center at Exit 6 in Nashua. The widening of the Central Turnpike in Nashua from the Massachusetts state line to the Exit 8 interchange was completed in 2002. This section of reconstructed highway includes a highway interconnect from the Exit 2 interchange in Nashua to Route 3A in Hudson.

George N. Campbell, Jr.

A handwritten signature in black ink, appearing to read "G. N. Campbell, Jr.", with a stylized flourish at the end.

Commissioner

# **ORGANIZATIONAL LISTING**

## **STATE OF NEW HAMPSHIRE**

### **Governor**

John H. Lynch

### **Executive Council**

Raymond S. Burton

John D. Shea

Beverly A. Hollingworth

Raymond J. Wieczorek

Debora B. Pignatelli

### **State Treasurer**

Catherine A. Provencher

### **Secretary of State**

William M. Gardner

### **Attorney General**

Kelly A. Ayotte

## **NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION**

### **Commissioner**

George N. Campbell, Jr.

### **Assistant Commissioner**

David J. Brillhart, P.E.

### **Director of Operations**

Lyle Knowlton, P.E.

### **Director of Finance**

Thomas Martin, CPA

### **Turnpike System Administrator**

Harvey S. Goodwin, P.E.

### **Turnpike System Assistant Administrators**

Jonathan K. Hanson and John Corcoran, P.E.

### **Business Administrator**

Margaret S. Blacker

### **Maintenance Superintendent**

Dix E. Bailey

### **Project Manager**

Nasser Yari, P.E.

## **FINANCIAL SECTION**

This section includes the independent auditors' report, management's discussion and analysis, the financial statements as of and for the fiscal year ended June 30, 2008 and the accompanying notes to the financial statements.

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## **INDEPENDENT AUDITORS' REPORT**

To the Fiscal Committee of the General Court  
State of New Hampshire  
Concord, New Hampshire

We have audited the accompanying statement of net assets of the State of New Hampshire's Turnpike System as of June 30, 2008 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Turnpike System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Turnpike System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Turnpike System as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 11 through 15 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements of the Turnpike System. The introductory and other information sections of this report are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



To the Fiscal Committee of the General Court  
State of New Hampshire

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2008 on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

December 18, 2008

# New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

This discussion and analysis of the Turnpike System's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter at the front of the introductory section and the Turnpike System financial statements, which follow this section.

## **Financial Highlights**

- ❖ Operating revenues for the Turnpike System increased approximately \$18.5 million or 21.6% in fiscal year 2008, primarily due to the toll rate increase that took effect on October 22, 2007.
- ❖ Operating expenses for the year increased approximately \$8.1 million or 13.9%. This increase in operating expenses is due largely to an increase in Renewal and Replacement expenditures, fueled by the recommendations set forth in the fiscal year 2007 independent engineer's report, which called for an increased program going forward. This fiscal year 2008 program was comprised of resurfacing, bridge rehabilitation, signage, bridge painting, toll plaza maintenance, and median barrier installation and also included spending down some appropriations carried forward from prior years. The increase in depreciation, due to the completion of some capital program projects, was also a factor in the rise of operating expenses.

## **Using this Annual Report**

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System's financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of a series of financial statements, along with explanatory notes to the financial statements. The Statement of Net Assets on page 16 and the Statement of Revenues, Expenses and Changes in Net Assets on page 17, report the Turnpike's net assets and changes in them. Lastly, the Statement of Cash Flows on page 18 outlines the cash inflows and outflows related to the activity of the Turnpike System.

## **Turnpike System's Net Assets**

		(Amounts in thousands)	
		2008	2007
<b><u>Assets:</u></b>			
	Current Assets	\$ 100,012	\$ 80,091
	Non-current Assets	3,108	3,332
	Capital Assets	560,364	555,652
	Total Assets	<u>663,484</u>	<u>639,075</u>
<b><u>Liabilities:</u></b>			
	Current Liabilities	32,270	29,011
	Non-current Liabilities	247,840	262,170
	Total Liabilities	<u>280,110</u>	<u>291,181</u>
<b><u>Net Assets:</u></b>			
	Invested in Capital Assets, Net of Related Debt	303,686	285,523
	Restricted for Debt Repayments	40,597	40,376
	Unrestricted Net Assets	39,091	21,995
	Total Net Assets	<u>\$ 383,374</u>	<u>\$ 347,894</u>

**New Hampshire Turnpike System  
Management's Discussion and Analysis**

*(Unaudited)*

The Turnpike System's total net assets at June 30, 2008 were approximately \$383.4 million, a 10.2% increase from June 30, 2007. Total assets increased 3.8% to \$663.5 million. Total liabilities decreased 3.8% to \$280.1 million. The increase in net assets is due mainly to the income before capital contributions of \$26.7 million, up \$9.4 million over the prior year. This increase was the result of a combination of an \$18.5 million increase in operating revenue, which offset increases in operating (\$8.1 million) and non-operating (\$1 million) expenses. The effects of the operating items were discussed in the financial highlights on the previous page. The decrease in non-operating income can be attributed mainly to the decline in investment income brought on by lower interest rates. Also playing a part in the rise in net assets during fiscal year 2008 were the capital contributions of \$8.8 million, specifically \$6.7 million for Manchester's Granite Street projects and \$2.1 million for Dover's park and ride project.

**Liabilities**

The Turnpike System total liabilities decreased by \$11.1 million in fiscal year 2008, which can be primarily attributed to retirement of long-term bonds payable.

Current liabilities consist primarily of accrued operating expenses, deferred revenue, and the current portion of bonds payable. The increase in current liabilities of \$3.3 million in fiscal year 2008 is largely due to the rise in accounts payable. This rise was brought on by capital program and Renewal and Replacement construction work late in the fiscal year, for which requests for payment were not received until after June 30. The table below shows current liabilities as of June 30, 2008 and June 30, 2007:

	(Amounts in thousands)	
	<u>2008</u>	<u>2007</u>
Accounts Payable	\$ 5,582	\$ 3,662
Accrued Compensated Absences and Workers Compensation	428	708
Bonds Payable	14,744	13,964
Deferred Revenue	6,833	5,961
Other Current Liabilities	4,683	4,716
Total Current Liabilities	<u>\$ 32,270</u>	<u>\$ 29,011</u>

Fitch Ratings and Standards & Poor's have assigned the Turnpike System bonds a rating of A. Moody's Investors Service has assigned a rating for the Turnpike System bonds of A1.

**Revenues and Expenses**

**Operating Revenues**

The Turnpike System's primary revenues are generated from toll collections and interest income. The Central Turnpike generated gross revenue of \$42.9 million, the Blue Star Turnpike \$43.4 million and the Spaulding Turnpike finished the year with \$14.1 million in gross revenue. \$3.8 million was also generated in other income, including toll violation administrative fees, toll evasion fines, property damage, and miscellaneous revenue, for combined toll operating revenue of \$104.2 million for the year ended June 30, 2008.



**New Hampshire Turnpike System  
Management's Discussion and Analysis**

*(Unaudited)*

***Turnpike System Revenue and Traffic Trends***

With authorization from the Governor and Executive Council, the Department increased the toll rates at the Hooksett, Bedford, Dover, and Rochester mainline plazas, and at the Hampton side plaza by \$0.25 for single rear tire vehicles (classes 1-4) and by \$0.50 for dual rear tire vehicles (classes 5-12). Further, the rate was increased at the Hampton Mainline Toll, \$0.50 for single rear tire vehicles (classes 1-4) and \$1.00 for dual rear tire vehicles (classes 5-12). This additional revenue will be used to fund Turnpike expansion programs.

During fiscal year 2008, total toll transactions declined by 2.0% from the previous year, to approximately 113.2 million, largely due to the recent spike in motor fuel prices and the deteriorating economic conditions in New Hampshire and across the country. Passenger vehicles traveling the Turnpike System comprised 94% of the total traffic, with commercial vehicles at 6%. During the twelve months ended June 30, 2008, approximately 57% of total traffic used the E-ZPass program.

**Operating Expenses**

Operating expenses for the year rose approximately \$8.1 million or 13.9% over the previous year. As previously discussed, this is due largely to the increases in Renewal and Replacement program and depreciation of capital assets.

<b><u>Turnpike System's Changes in Net Assets</u></b>		(Amounts in thousands)
	<u>2008</u>	<u>2007</u>
Operating Revenue	\$ 104,204	\$ 85,718
Operating Expenses	<u>66,539</u>	<u>58,429</u>
Operating Income	37,665	27,289
Non-Operating (Expenses)	<u>(11,001)</u>	<u>(10,017)</u>
Net Income Before Capital Contributions	26,664	17,272
Capital Contributions	<u>8,816</u>	<u>10,422</u>
Change in Net Assets	35,480	27,694
Net Assets – July 1	<u>347,894</u>	<u>320,200</u>
Net Assets - June 30	<u>\$ 383,374</u>	<u>\$ 347,894</u>

***Maintenance of the Turnpike System***

The Turnpike System (other than the Spaulding Turnpike extension, for which the Turnpike System is billed for maintenance performed by District 6, Bureau of Highway Maintenance) is maintained and repaired by the Bureau of Turnpikes of the State Department of Transportation. All maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950. The Turnpike System funds Renewal and Replacement Costs from the General Reserve Account. In addition, the State's policy is to set aside a cumulative total of \$2,000,000 of its General Reserve Account for unanticipated Renewal and Replacement Costs.

In the past, the Bureau of Turnpikes resurfacing goal was on average 10% of the total lane miles of the Turnpike System each year. During fiscal year 2008, 46 lane miles of the Turnpike System were resurfaced as part of the Renewal and Replacement program, representing only 7% of the total. The recent jump in the cost

## **New Hampshire Turnpike System Management's Discussion and Analysis**

*(Unaudited)*

of asphalt has stretched the feasible resurfacing cycle from 10 years to closer to every 12-14 years, still within a range that the Bureau has deemed to be sufficient to adequately maintain the Turnpike System.

During fiscal year 2007, the independent engineer the HNTB Corporation (HNTB) conducted an infrastructure study of the Turnpike System to assist in planning for future Renewal and Replacement needs. In the report, HNTB concluded that the Turnpike System has been adequately maintained through October 2006, the date of its report. However, due to the delayed Renewal and Replacement spending and to the increased costs of materials, the level of expenditure going forward should be greater than that which had been previously planned.

For fiscal year 2008, the Turnpike System expenditures for Renewal and Replacement were \$11.8 million. For the fiscal years 2009-2011, taking into account the analysis conducted by HNTB, the anticipated budget is roughly \$8.7 million in fiscal year 2009 and \$9.6 million and \$9.8 million in fiscal years 2010 and 2011, respectively, for Renewal and Replacement, with major expenditures for resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs.

### **Non-Operating (Expenses)**

Net non-operating expenses increased by 9.8%. The net increase in fiscal year 2008 is due to the decreases of \$0.7 million in investment income and \$0.1 million in miscellaneous income, coupled with the slight increase in interest on bonds of \$0.1 million.

### **Recent GASB Pronouncements**

#### **Other Post Employment Benefits**

The Governmental Accounting Standards Board (GASB) issued statement Number 45—*Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. These statements include post employment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees.

These benefits referred to as OPEB, are financed by the State on a pay-as-you-go basis. The new standard introduces an accrual basis accounting requirement; thereby recognizing the employer's cost of post employment benefits over an employee's career. Further, the State must also recognize a liability equal to the actuarial cost of Other Post Employment Benefits. The State calculates OPEB by assuming a discount rate based on a pre-funded or pay as you go basis to fund these costs. The discount rates used are 8.5% and 4.5%, respectively, for pre-funded and pay-as-you-go basis of accounting. Under a pay as you go accounting, a lower interest rate discount to the liabilities projects a larger liability and expense in the current year, while a pre-funded discount approach will project a smaller liability and expense in the current year. The rate of return on the investments will ultimately determine whether benefits provided will come from investment earnings or contributions by the State.

In fiscal year 2008, the State has recognized the impact of this pronouncement at the government wide level and will not allocate liability to the Turnpike System. During fiscal year 2008, the Turnpike System recognized an actual expense of \$0.7 million on a pay-as-you-go basis.

# **New Hampshire Turnpike System Management's Discussion and Analysis**

*(Unaudited)*

## **Budget and Appropriation Process**

The Legislature meets annually, and adopts its budget every other year on a biennial basis. Prior to the beginning of each biennium, all departments of the State, including the Department of Transportation, are required by law to transmit to the Commissioner of the Department of Administrative Services requests for capital expenditures, as well as estimates of their administration, operation and maintenance expenditure requirements for each fiscal year of the ensuing biennium.

As a bureau of the State of New Hampshire, Department of Transportation, the Turnpike System is included in the State of New Hampshire's biennial operating budget. The Turnpike System's official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. The Turnpike's budget consists primarily of salaries and benefits, maintenance, expenses relative to snow removal, and debt service.

The Commissioner of the Department of Administrative Services, who submits the summary to the Governor, summarizes capital expenditure requests. After holding public hearings and requesting further evaluation of selected projects by the Commissioner of the Department of Transportation, the Governor prepares a capital budget for submission to the Legislature.

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and prepares the final budget proposal, setting forth the Governor's financial program for the following two fiscal years.

Once the budget becomes law, it represents the authorization for spending levels of each State department during the next two fiscal years.

## ***Contacting the Turnpike's Financial Management***

This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of government, as well as other interested parties, a general overview of the Turnpike System's financial activity for fiscal year 2008 and to demonstrate the Turnpike System's accountability for the money it received from toll collections. If there are questions about this report or the need for additional information, contact the New Hampshire Department of Transportation, Bureau of Finance and Contracts, John O. Morton Building, Room 170, 7 Hazen Drive, Concord, NH 03302-0483.

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF NET ASSETS  
JUNE 30, 2008  
(Expressed in Thousands)**

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 54,057
Cash and Cash Equivalents – Restricted	40,597
Receivables (Net of Allowances for Uncollectibles)	4,095
Inventories	1,263
Total Current Assets	<u>100,012</u>

**Non-current Assets:**

Bond Issue Costs	3,108
Capital Assets:	
Land	110,663
Buildings	4,828
Equipment and Computer Software	35,656
Construction in Progress	26,082
Infrastructure	611,156
Less: Allowance for Depreciation and Amortization	<u>(228,021)</u>
Net Capital Assets	<u>560,364</u>
Total Non-current Assets	<u>563,472</u>

**Total Assets**

663,484

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	5,582
Accrued Payroll	791
Deferred Revenue	6,833
General Obligation Bonds Payable - Current	1,474
Revenue Bonds Payable - Restricted	13,270
Accrued Interest Payable - Restricted	3,807
Claims and Compensated Absences Payable	428
Other Liabilities	85
Total Current Liabilities	<u>32,270</u>

**Non-current Liabilities:**

General Obligation Bonds Payable	1,347
Revenue Bonds Payable (Net of Unamortized Discount)	243,695
Claims and Compensated Absences Payable	2,798
Total Non-current Liabilities	<u>247,840</u>

**Total Liabilities**

280,110

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	303,686
Restricted for Debt Repayments	40,597
Unrestricted Net Assets	39,091
Total Net Assets	<u>\$ 383,374</u>

The notes to the financial statements are an integral part of this statement



**STATE OF NEW HAMPSHIRE - DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS  
FOR FISCAL YEAR ENDED JUNE 30, 2008**

*(Expressed in Thousands)*

**OPERATING REVENUES – PLEDGED**

Toll Revenue	\$ 100,407
Transponder Revenue	894
Other Toll Operating Revenue	<u>2,903</u>
Toll Operating Revenue	<u>104,204</u>

**OPERATING EXPENSES**

Personnel Services	10,623
Payroll Benefits	4,706
Enforcement	5,230
Renewal & Replacement	11,842
Other Administration	2,518
Repairs	3,049
Indirect Costs	1,825
Heat, Light and Power	1,501
Bank Fees	1,689
Rentals	873
E-ZPass Processing Fees	4,287
Transponder Expense	821
Depreciation	<u>17,575</u>
Total Operating Expenses	<u>66,539</u>
Operating Income	<u>37,665</u>

**NON-OPERATING REVENUES (EXPENSES)**

Investment Income	2,546
Miscellaneous	325
Interest on Bonds	<u>(13,872)</u>
Total Non-operating Expenses	<u>(11,001)</u>
Income Before Capital Contributions	<u>26,664</u>
Capital Contributions	<u>8,816</u>
Change in Net Assets	35,480
Net Assets - July 1	<u>347,894</u>
Net Assets - June 30	<u>\$ 383,374</u>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE - DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF CASH FLOWS  
FOR FISCAL YEAR ENDED JUNE 30, 2008  
(Expressed in Thousands)**

**Cash Flows from Operating Activities:**

Receipts from Customers	\$ 103,901
Payments to Employees	(15,370)
Payments to Suppliers	<u>(32,667)</u>
Net Cash Provided by Operating Activities	<u>55,864</u>

**Cash Flows from Capital and Related Financing Activities:**

Acquisition, Disposal, and Construction of Capital Assets	(20,918)
Capital Contributions	8,816
Interest Paid on Revenue and General Obligation Bonds	(13,459)
Principal Paid on Bonds	<u>(13,964)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(39,525)</u>

**Cash Flows from Investing Activities:**

Interest and Other Income	<u>2,999</u>
Net Cash Provided by Investing Activities	<u>2,999</u>
Net Increase in Cash and Cash Equivalents	19,338
Cash and Cash Equivalents - July 1	<u>75,316</u>
Cash and Cash Equivalents - June 30	<u>\$ 94,654</u>

**Reconciliation of Operating Income to Net**

**Cash Provided by Operating Activities:**

Operating Income	\$ 37,665
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	17,575
Change in Operating Assets and Liabilities:	
Increase in Receivables	(1,176)
Decrease in Inventories	465
Increase in Accounts Payable and Other Accruals	463
Increase in Deferred Revenue	<u>872</u>
Net Cash Provided by Operating Activities	<u>\$ 55,864</u>

The notes to the financial statements are an integral part of this statement.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

### (1) **Summary of Significant Accounting Policies**

The accompanying financial statements of the Turnpike System have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

#### **(a) *Financial Reporting Entity***

The New Hampshire Turnpike System ("the Turnpike System") is a bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported as an enterprise fund of the State of New Hampshire ("the State") and is included in the Comprehensive Annual Financial Report of the State. The Turnpike System itself has no component units included in its reporting entity. The Turnpike System constructs, maintains, and operates toll transaction facilities and issues revenue bonds, which are repaid from tolls and other revenues. Under the provisions of New Hampshire Revised Statutes Annotated (RSA) 237, as amended by Chapter 203, Laws of 1986, Chapter 306, Laws of 1998, and Chapter 262, Laws of 2004, the Legislature established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. RSA's 237 and 237-A authorized the issuance of \$586 million of revenue bonds to fund these projects.

#### **(b) *Measurement Focus and Basis of Accounting***

The accounting policies of the Turnpike System conform to generally accepted accounting principles as applicable to government enterprise funds and, as such, the activities of the Turnpike System are reported using the economic resources measurement focus and accrual basis of accounting. With respect to these activities, the Turnpike System has adopted applicable GASB pronouncements. The Turnpike System has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

#### **(c) *Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **(d) *Restricted Assets***

The proceeds of the Turnpike System Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by a bond resolution.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

**(e) *Accounts Receivable***

Receivables primarily consist of amounts due from the Highway Fund and outstanding E-Z Pass violations. The accounts receivable balance as of June 30, 2008 is \$6.2 million less a \$2.1 million allowance for doubtful accounts, which represents an estimate of uncollectible toll violation fees.

**(f) *Cash Equivalents***

For the purpose of the Statement of Cash Flows, cash equivalents represent short-term investments with maturity dates within three months of the date acquired.

**(g) *Capital Assets***

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets which are as follows: infrastructure – 50 years; buildings – 40 years; toll equipment – 10 years; and other equipment – 5 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets purchased or constructed by other funding sources are recorded at cost. In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on capital assets acquired with tax-exempt debt.

**(h) *Revenue Bond Discounts/Premiums and Issuance Costs***

Revenue bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred costs.

**(i) *Compensated Absences***

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year. The State's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the state's share of social security and retirement contributions. The current portion of the liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

**(j) *Revenues and Expenses***

Revenues and expenses are classified as operating or non-operating. Operating revenues and expenses generally result from toll collections, the sale of transponders, administration,

(continued)



# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

depreciation, and turnpike maintenance. Generally, all other revenues and expenses are reported as non-operating. Non-operating revenue generally results from the interest on investments, rental income, sales of land and equipment, and vending machine sales.

**(k) E-ZPass Program**

Upon enrolling in the E-ZPass program, participants establish pre-paid toll accounts. These pre-paid toll receipts are collected by Affiliated Computer Services (ACS) on behalf of the Turnpike System and recorded by the Turnpike System as deferred revenue until the customer completes a toll transaction. Once this occurs, revenue is recorded and the customer's account is charged. Vehicle transponders, which serve to identify the vehicles passing through the toll plazas, are purchased by the Turnpike System and shipped to customers by the contractor, ACS. The sale price customers are charged for transponders is approximately equal to the price the Turnpike System pays for them.

**(l) Inventory**

Inventories for materials and supplies are valued at cost. Also, included in the inventory amount are E-ZPass transponders. They are received and stored at the E-ZPass Customer Service Center, run by a contractor, ACS, located in New Jersey who reports the transponders inventory at cost for June 30, 2008.

**(2) Cash, Cash Equivalents, and Investments**

**(a) Cash and Cash Equivalents**

**Primary Government** – The State pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. The Turnpike System's share of the total pooled cash and investments and restricted assets is included on the balance sheet as "Cash and Cash Equivalents".

**Deposits** – The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits:

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

**Custodial Credit Risk:** The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

The Governor and Executive Council must approve all depositories used by the State at least annually. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

The State does not hold any assets for the Turnpike System that are denominated in foreign currencies. Therefore, foreign currency risk is nonexistent.

As of June 30, 2008, the Turnpike System's bank balances were exposed to custodial credit risk as follows:

(Amounts in thousands)

	Collateralized & held In State's name	Un-collateralized	Total
Certificates of Deposit	\$15,000		\$15,000
Demand Deposits	\$20,795		\$20,795
Money Market	\$19,262	\$39,597	\$58,859
<b>Total</b>	<b>\$55,057</b>	<b>\$39,597</b>	<b>\$94,654</b>

### (b) Investments

The following statutory requirements and Treasury Department policies have been adopted to ensure reasonable rates of return on investments while minimizing risk factors.

Approved investments are defined in statute (RSA 6:8, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2008, the Turnpike System investments have a maturity of less than 90 days and therefore are reported as cash and cash equivalents.

The table below reconciles the cash and cash equivalents in the financial statements to the footnote:

(Amounts in thousands)

Reconciliation Between Financial Statements and Footnote			
Per Statement of Net Assets	Unrestricted	Restricted	
	Cash and Cash Equivalents	Cash and Cash Equivalents	Total
	\$54,057	\$40,597	\$ 94,654

### Repurchase Agreements:

Repurchase agreements must be executed through a New Hampshire or Massachusetts bank with assets in excess of \$500 million and has either the strongest rating as measured by Veribanc, Inc. or has a long term debt rating of AA- or better as rated by Standard and Poor's and Fitch or Aa3

(continued)

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

or better as rated by Moody's. Repurchase agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve. There were no repurchase agreements outstanding as of June 30, 2008.

### (3) Restricted Assets

Restricted assets at fair value are segregated into the following accounts as of June 30:

(Amounts in thousands)	2008
Revenue Bond Interest Debt Service Account	\$ 1,598
Revenue Bond Principal Debt Service Account	7,544
Revenue Bond Debt Service Reserve Account	26,455
Revenue Bond Insurance Reserve Account	3,000
Revenue Bond General Reserve Account	2,000
Total Restricted Assets	<u>\$ 40,597</u>

The "Revenue Bond Interest Debt Service Account" and "Revenue Bond Principal Debt Service Account" are used to segregate resources accumulated for debt service payments on the given maturity dates (see note 5). The "Revenue Bond Debt Service Reserve Account" is used to report resources set aside to make up potential future deficiencies in the revenue bond interest debt service account and revenue bond principal debt service account. The "Revenue Bond Insurance Reserve Account" is used to report the amount that is available to insure against risks that would otherwise be covered by policies of insurance. The "Revenue Bond General Reserve Account" is used to report resources set aside to meet deficiencies in revenues, to fund asset renewals and replacements, to pay Turnpike System general obligation bonds, or for any other lawful purpose of the Turnpike System.

In addition to the above accounts, a "Revenue Bond Special Redemption Account" would be used to report any monies not otherwise required by the bond resolution to be deposited or applied, including excess proceeds after the completion of a project. A "Revenue Bond Rebate Account" also would be used to report any excess of interest earned on non-purpose investments (as defined in section 148 of the *Internal Revenue Code of 1986*, as amended).

(continued)

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

### (4) Capital Assets

Capital Asset activity for the year ended June 30, 2008, was as follows:

	(Amounts in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated:				
Land and Land Improvements	\$ 110,412	\$ 588	\$ (337)	\$ 110,663
Construction in Progress	58,984	21,542	(54,444)	26,082
Capital Assets not Being Depreciated:	<u>169,396</u>	<u>22,130</u>	<u>(54,781)</u>	<u>136,745</u>
Other Capital Assets:				
Equipment	33,468	2,718	(530)	35,656
Buildings and Building Improvements	4,828	-	-	4,828
Infrastructure	<u>558,936</u>	<u>52,220</u>	<u>-</u>	<u>611,156</u>
Subtotal Other Capital Assets	<u>597,232</u>	<u>54,938</u>	<u>(530)</u>	<u>651,640</u>
Total Capital Assets	<u>766,628</u>	<u>77,068</u>	<u>(55,311)</u>	<u>788,385</u>
Less Accumulated Depreciation for:				
Equipment	(18,162)	(3,277)	530	(20,909)
Buildings and Building Improvements	(2,747)	(73)	-	(2,820)
Infrastructure	<u>(190,067)</u>	<u>(14,225)</u>	<u>-</u>	<u>(204,292)</u>
Total Accumulated Depreciation	<u>(210,976)</u>	<u>(17,575)</u>	<u>530</u>	<u>(228,021)</u>
Capital Assets, Net	<u>\$ 555,652</u>	<u>\$59,493</u>	<u>\$ (54,781)</u>	<u>\$ 560,364</u>

At June 30, 2008, the Turnpike System had contractual commitments for various Turnpike System improvement projects of \$18.6 million.

In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until proceeds are fully expended, with interest earned on invested proceeds over the same period. In fiscal year 2008, no interest cost was capitalized, as all bond funded projects had been completed in prior years.

### (5) Long-Term Debt

#### (a) Bonds Authorized and Un-issued

Bonds authorized and un-issued amounted to \$191.0 million of revenue bonds at June 30, 2008. The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$586.0 million of bonds to support this plan. To date, the State has issued \$395.0 million of revenue bonds for this plan.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

### (b) *Changes in Long-Term Liabilities*

The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims during the fiscal year:

(Amounts in thousands)

<i>Turnpike System</i>	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds	\$4,377	-	(1,556)	2,821	1,474	1,347
Revenue Bonds	269,084	-	(12,119)	256,965	13,270	243,695
Claims & Compensated Absences Payable	3,381	728	(883)	3,226	428	2,798
<b>Total</b>	<b>\$276,842</b>	<b>728</b>	<b>(14,558)</b>	<b>263,012</b>	<b>15,172</b>	<b>247,840</b>

### (d) *Debt Maturity*

With the exception of Turnpike System revenue bonds, all bonds issued by the State are general obligation bonds. These are backed by the full faith and credit of the State. Interest rates on these issues range from 2.0% to 7.2%. The annual maturities are as follows:

(Amounts in thousands)

Payable June 30,	General Obligation Principal	General Obligation Interest	Revenue Principal	Revenue Interest	Total Principal	Total Interest
2009	1,474	123	13,270	12,711	14,744	12,834
2010	624	45	13,500	12,092	14,124	12,137
2011	584	15	14,710	11,426	15,294	11,441
2012	0	0	14,550	10,692	14,550	10,692
2013	0	0	16,950	9,960	16,950	9,960
2014 – 2018	0	0	87,450	36,935	87,450	36,935
2019 – 2023	0	0	59,255	16,671	59,255	16,671
2024 – 2028	0	0	33,120	5,510	33,120	5,510
2029 – 2033	0	0	7,230	343	7,230	343
Subtotal	2,682	183	260,035	116,340	262,717	116,523
Un-amortized Premium	139	0	6,876	0	7,015	0
Un-amortized Loss on Refunding	0	0	(9,946)	0	(9,946)	0
<b>Total</b>	<b>2,821</b>	<b>183</b>	<b>256,965</b>	<b>116,340</b>	<b>259,786</b>	<b>116,523</b>



# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

All revenue bonds are secured by a pledge of substantially all Turnpike System revenues and monies deposited into accounts created by the bond resolutions, subject only to the payment of operating expenses.

The bond resolutions require the Turnpike System to establish and collect tolls which are adequate at all times, when combined with other available sources of revenues, to provide for the proper operation and maintenance of the Turnpike System and for the timely payment of the principal and interest on all bonds, notes or other evidences of indebtedness.

The resolutions further require the Turnpike System to collect sufficient tolls so that in each fiscal year net revenues will be at least equal to the greater of: (a) 120% of current year debt service on the revenue bonds, or (b) 100% of current year debt service on the revenue bonds and on all general obligation or other bonds, notes or other indebtedness, and the additional amount, if any, required to be paid from the revenue bond general reserve account to satisfy the Renewal and Replacement requirement for the fiscal year.

The Turnpike System is required to review the adequacy of its tolls after each fiscal year. If this review indicates that the tolls and charges are, or will be, insufficient to meet the requirements described above, then the Independent Engineer of the Turnpike System will make a study and recommend a schedule of tolls and charges which will provide revenues sufficient to comply with the requirements described above. For fiscal year 2008, the toll rate schedule was deemed to be sufficient to meet all required payments in connection with the Turnpike System, and as such, no Independent Engineer's study was sought.

The resolutions require the Turnpike System to maintain certain accounts (see note 3). The Turnpike System deposits all revenues into a "Turnpike System revenue account," which are then applied first to the payment of operating expenses and then to fund accounts required by the resolutions.

The resolutions establish a Renewal and Replacement requirement with respect to each fiscal year. Renewal and Replacement costs consist of rehabilitation, renewals, replacements, and extraordinary repairs necessary for the sound operation of the Turnpike System or to prevent loss of revenues, but not costs associated with new construction, additions or extensions.

The Turnpike System has complied with all of its material financial bond covenants as set forth in the resolutions.

On February 8, 1995, the Turnpike System entered into a Debt Service Forward Supply Agreement ("the Agreement") with JP Morgan Chase. The agreement provides that JP Morgan Chase is responsible for investing all funds deposited on a monthly basis by the Turnpike System into the Revenue Bond Interest and Principal Debt Service Accounts. The financial institution made a one-time payment to the Turnpike System of \$4.7 million and is now responsible for ensuring that the required amount is available in the accounts to pay the interest and principal when due. However, the financial institution retains all interest earnings on those monies.

### **(6) Employee Benefit Plans**

#### **(a) Plan Description**

The Turnpike System participates in the New Hampshire Retirement System (the Plan). The Plan is a cost-sharing, multiple-employer Public Employees Retirement System (the Plan) established

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

Members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of credited service. Members in service with ten or more years of creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose age and service years number 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Members may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

A Special Account has been established by RSA 100-A:16, II(h) for additional benefits. The Special Account is credited with all of the earnings of the Special Account assets plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to the New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

### **(b) *Funding Policy***

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2008, by statute, Group I members contributed 5% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Turnpike System's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll and paid by the employer. The Turnpike System's share represents 100% of the employer cost for all Turnpike employees. The Turnpike System's contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$672 thousand, \$487 thousand, and \$439 thousand respectively, which equaled the required contributions for each year.

### **(c) *Health Care Insurance for Retired Employees***

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees within the limits of the funds appropriated at each legislative session. These benefits, referred to as other post employment benefits (OPEB), include group hospitalization, hospital medical care, surgical care and pharmaceuticals. Substantially, all of the state's employees who were hired on or before June 30, 2003 may

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group 1 employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for retiree health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying the actuarially determined insurance contributions into the fund. The Turnpike System contributions paid into the Employee Benefit Risk Management Fund totaled \$671 thousand for approximately 176 retirees and spouses for fiscal year 2008. An additional source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program, which totaled approximately \$233 thousand for the Turnpike System retirees in fiscal year 2008.

The State has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. Statement No. 45 requires governments to account for other post employment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense when a future retiree earns their post employment benefit rather than when they use their post employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post employment benefit liability is recognized on the balance sheet over time. During 2008, the Turnpike recognized an expense on a pay-as-you-go basis of \$700 thousand. The State will record the net OPEB obligation on the government wide financial statements as of June 30, 2008.

### **(7) Capital Contributions**

The Turnpike System recognized grant contributions totaling \$8.8 million representing capital assets purchased or built with federal funds transferred from the Highway Fund to the Turnpike Fund.

### **(8) Risk Management**

The Turnpike System is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State primarily retains the risk for losses, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last three fiscal years. There have not been any significant changes in insurance coverage in any of the last three years.

The State has established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Under this program, the Fund provides coverage for up to a maximum of \$500 thousand for each employee per year. The State has purchased commercial insurance for claims in excess of coverage provided, as well as, aggregate stop loss liability coverage set at 125% of the State's total expected claims per contract year.

Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. The balance of claim liabilities is determined by an

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

analysis of past, current, and future estimated loss experience. Because actual claim liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claim liabilities during the fiscal years ending June 30, 2007 and 2008:

*(amounts in thousands)*

	<u>2008</u>	<u>2007</u>
Beginning Balance	\$ 2,594	\$ 2,092
Increases	-	859
Decreases	<u>(276)</u>	<u>(357)</u>
Ending Balance	<u>\$ 2,318</u>	<u>\$ 2,594</u>
Current	\$ 181	\$ 504
Long-Term	\$ 2,137	\$ 2,090

### (10) Commitments

#### (a) *E-ZPass Customer Service Contract*

Upon inception of the E-ZPass program, the Turnpike System entered into a 3-year contract, with Affiliated Computer Services (ACS) of Newark, NJ, to process E-ZPass transactions, effective September 24, 2004. The contract with ACS was renewed for 3 additional years on October 2, 2007. This 3-year contract, which also includes options to extend, is not to exceed \$14.2 million. Services include:

- Opening and closing of accounts
- Maintaining the account information database
- Distribution of transponders and maintenance of transponder inventory
- Dispute resolution
- Receiving and posting prepaid revenue to accounts
- Debiting accounts based upon toll revenue charged to account holders
- Processing toll lane violations, including administrative violations
- Marketing

#### (b) *Capital Improvement Program*

The ten-year capital improvement program, adopted by the Legislature in 1986, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its capacity. It is updated every two years to address changing priorities.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

Some of the major projects that could be part of the long-term Turnpike System capital improvement program and if included, will be financed with Turnpike System funds, anticipated bond proceeds, and federal funding include:

- Engineering, right-of-way acquisition and construction of Exits 11 through 16 on the Spaulding Turnpike in Rochester (immediate emphasis on the replacement of bridges at exits 11 and 12, with a longer term goal of two additional lanes of travel added from Exits 12 to 16) [\$157.7 million]
- Engineering and construction of an F.E. Everett Turnpike bridge over the Souhegan River in Merrimack [\$15.4 million]
- Engineering, right-of-way acquisition and construction of US Rte. 3 bridge over the F.E. Everett Turnpike in Bedford [\$13.0 million]
- Engineering and construction of the bridge on the Blue Star Turnpike carrying I-95 over the Taylor River in North Hampton and Hampton [\$10.5 million]
- Continued construction, specifically on bridges, of the F.E. Everett Turnpike through the Millyard area of Manchester [\$38.6 million]
- Engineering, right-of-way acquisition and construction of the Turnpike associated with NH16/US 4 widening, south of and including the Little Bay Bridges in Newington and Dover [\$175.8 million]
- Engineering and construction of an F.E. Everett Turnpike bridges over I-89 in Bow [\$11.7 million]
- Engineering and construction of an F.E. Everett Turnpike bridge over Black Brook in Manchester [\$3.8 million]

Depending on the scheduling of projects and availability of funding (e.g. toll revenues, bond proceeds), the Turnpike System capital improvement program expenditures during the ten-year plan period of 2009 – 2018 are expected to be in the range of between \$400 – \$450 million.

### (c) *Maintenance*

During fiscal year 2007, the independent engineer the HNTB Corporation (HNTB) conducted an infrastructure study of the Turnpike System to assist in planning for future Renewal and Replacement needs. In the report, HNTB concluded that the Turnpike System has been adequately maintained through October 2006, the date of its report. However, in order to ensure the continued adequacy of the Turnpike System, HNTB recommended that the level of expenditure going forward should be greater than that which had been previously planned.

In keeping with the recommendations of the HNTB, the Turnpike System expenditures for Renewal and Replacement in fiscal year 2008 were \$11.8 million. Also, the budgeted amount for fiscal year 2009 is \$8.7 million and the anticipated budget for fiscal years 2010 and 2011 is roughly \$10.0 million per year. The major expenditure categories to be undertaken as part of the program are resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

**(d)     *Legal***

The Turnpike System is involved in certain lawsuits, claims and grievances arising in the normal course of business, including claims for personal injury, property damage and disputes over eminent domain proceedings. In the opinion of General Counsel of the Turnpike System, payment of claims by the Turnpike System for amounts not covered by insurance in the aggregate, are not expected to have a material adverse effect on the Turnpike's financial position.

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## ***OTHER INFORMATION SECTION***

This section includes other relevant financial and operational information.

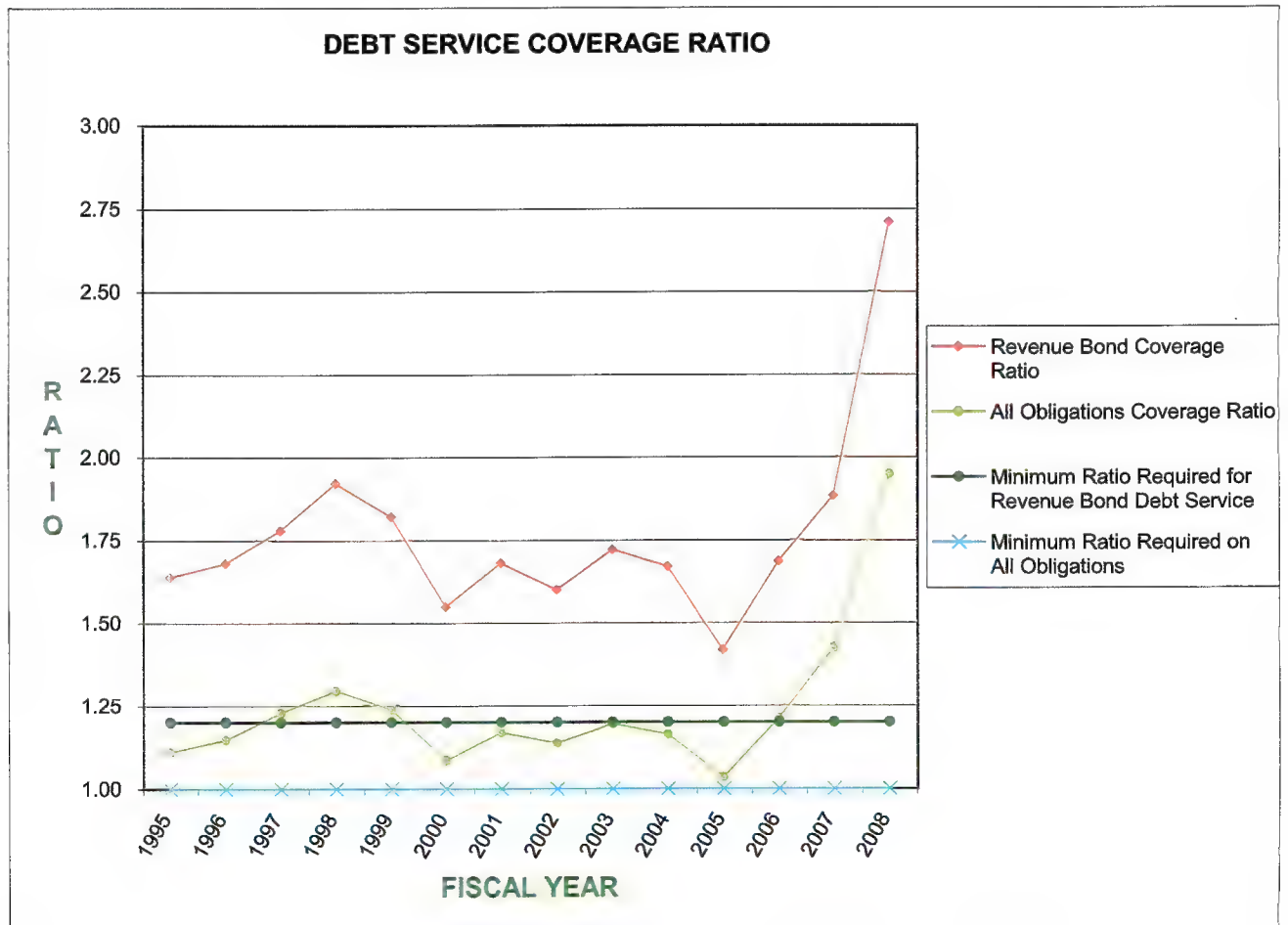
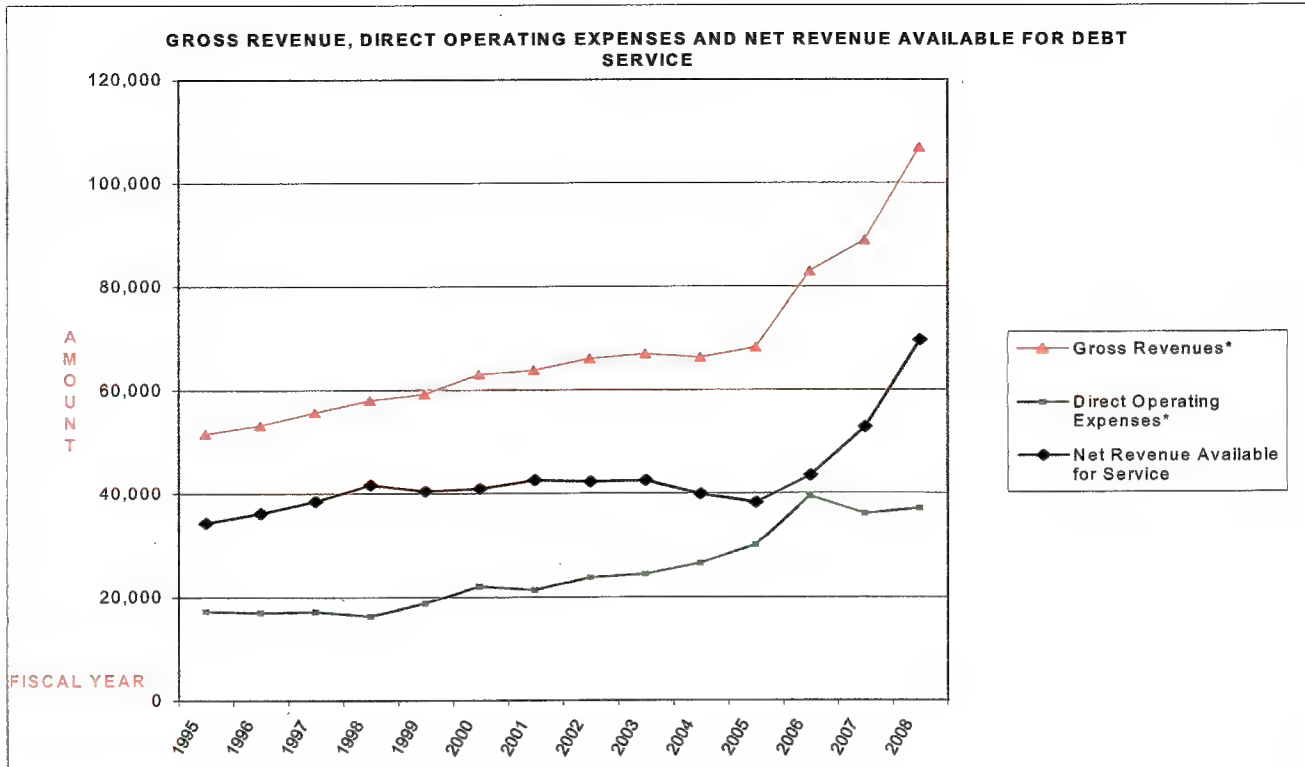
**SCHEDULE OF REVENUE BOND COVERAGE RATIOS**  
**Tumpike System Revenue Bonds for the Fiscal Years 1995 - 2008**

(Amounts in thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available for Service	Revenue Bond Debt Service Requirements	Revenue Bond Coverage Ratio	Minimum Ratio required for Revenue Bond Debt Service	G.O. Bond Debt Service Requirements	Renewal & Replacement	Total	All Obligations Coverage Ratio	Minimum Ratio required on All Obligations
2008	106,814	37,122	69,692	25,710	2.71	1.20	1,713	8,300	35,723	1.95	1.00
2007	89,054	36,158	52,896	28,078	1.88	1.20	2,985	6,047	37,110	1.43	1.00
2006	83,054	41,784	41,270	25,831	1.60	1.20	4,219	5,871	35,921	1.15	1.00
2005	68,318	30,041	38,277	27,003	1.42	1.20	4,246	5,700	36,949	1.04	1.00
2004	66,463	26,568	39,895	23,865	1.67	1.20	4,842	5,600	34,307	1.16	1.00
2003	67,086	24,505	42,581	24,749	1.72	1.20	5,183	5,700	35,632	1.20	1.00
2002	66,218	23,877	42,341	26,452	1.60	1.20	5,415	5,365	37,232	1.14	1.00
2001	63,981	21,352	42,629	25,352	1.68	1.20	5,696	5,431	36,479	1.17	1.00
2000	63,034	22,064	40,970	26,452	1.55	1.20	5,973	5,308	37,733	1.09	1.00
1999	59,257	18,794	40,463	22,286	1.82	1.20	6,304	4,119	32,709	1.24	1.00
1998	58,033	16,352	41,681	21,678	1.92	1.20	6,519	3,990	32,187	1.29	1.00
1997	55,714	17,231	38,483	21,597	1.78	1.20	6,747	3,000	31,344	1.23	1.00
1996	53,231	17,024	36,207	21,595	1.68	1.20	6,975	3,000	31,570	1.15	1.00
1995	51,670	17,336	34,334	20,878	1.64	1.20	7,232	2,810	30,920	1.11	1.00

\* As defined in Tumpike System Bond Resolutions

\* 2006, 2007 and 2008 calculation of Direct Operating Expenses subtracts out the entire amount of current year depreciation expense (Tumpikes, Federal, & Highway match portions). Prior to 2006 and 2007, calculations still reflect the historical practice of subtracting the non-Federal depreciation only. Also, starting in 2006 and going forward, the budgeted Renewal and Replacement amount is used in calculating the all obligation coverage ratio. In the years prior to 2006, the actual Renewal and Replacement expenditures were used in the calculation. For comparison purposes, those ratios are recalculated here using the budgeted amounts.



**ANNUAL TRAFFIC AND TOLL REVENUE TRENDS**  
**New Hampshire Turnpike System**  
**For the Year Ending June 30**

The table below shows annual toll transaction and revenue trends for the Turnpike System during the period beginning with fiscal year 2008 and ending with fiscal year 1997.

Fiscal Year	Annual Toll Transactions	Percent Change from Prior Year	Annual Toll Revenues*	Percent Change from Prior Year
2008 <sup>+</sup>	113,186,722	-2.0%	\$100,406,992	22.2%
2007 <sup>+</sup>	115,457,650	0.8%	\$82,175,322	7.2%
2006 <sup>+</sup>	114,562,787	4.1%	\$76,633,131	16.2%
2005 #	110,040,272	(0.5)%	\$65,956,309	0.3%
2004 #	110,573,506	0.5%	\$65,780,607	2.2%
2003	109,978,691	2.1%	\$64,367,301	0.0%
2002	107,729,932	4.0%	\$64,371,208	4.6%
2001	103,583,561	4.2%	\$61,536,675	2.3%
2000	99,363,028	5.7%	\$60,166,815	5.4%
1999	94,017,638	5.7%	\$57,080,882	5.1%
1998	88,987,246	4.7%	\$54,298,452	4.1%
1997	85,020,788	4.4%	\$52,160,088	5.7%

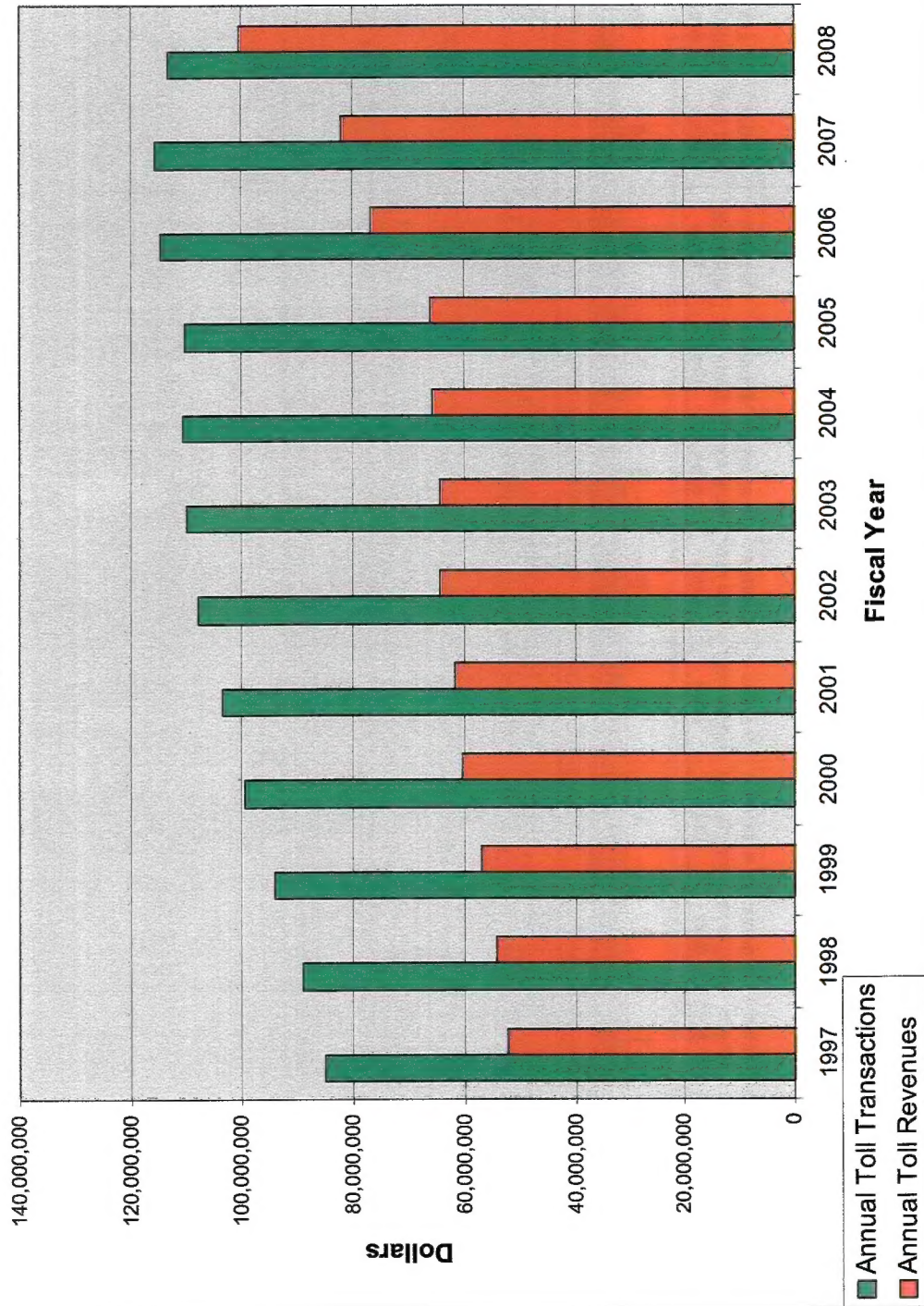
\* Excludes charge account interest and miscellaneous income.

# Hampton toll plaza: One-way tolls September-October 2003 and July-October 2004.

<sup>+</sup> GAAP Toll Revenue amount used in FY06 through FY08. Cash basis revenue was used in prior years.

## ANNUAL TRAFFIC AND TOLL REVENUE TRENDS

New Hampshire Turnpike System  
for the years ended June 30





**STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM TOLL RATE SCHEDULE  
EFFECTIVE JUNE 30, 2008**

<div><div>New Hampshire</div><div>DOT</div></div>		Fare													
		Plaza	Type/Class	1	2	3	4	5	6	7	8	9	10	11	12
Hooksett Main	2 axles - single rear tires	Cash Fare	1.00	\$ 1.25	\$ 1.50	\$ 1.75	\$ 2.00	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00	\$ 4.50	\$ 5.00	\$ 5.50	
		E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95	
Hooksett Ramp	2 axles - single rear tires	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.00	1.50	2.00	2.50	3.00	4.00	4.50	
Bedford Main	2 axles - single rear tires	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
		Cash Fare	1.00	1.25	1.50	1.75	2.00	2.00	2.50	3.00	3.50	4.00	5.00	5.50	
Bedford Road	2 axles - single rear tires	E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95	
		Cash Fare	0.50	0.75	1.00	1.25	1.00	1.00	1.50	2.00	2.50	3.00	4.00	4.50	
Exit 11	2 axles - single rear tires	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
		Cash Fare	0.50	0.75	1.00	1.25	1.00	1.00	1.50	2.00	2.50	3.00	4.00	4.50	
Merrimack Industrial	2 axles - single rear tires	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
		Cash Fare	0.50	0.75	1.00	1.25	1.00	1.00	1.50	2.00	2.50	3.00	4.00	4.50	
Hampton Main	2 axles - single rear tires	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
		Cash Fare	1.50	1.75	2.00	2.25	3.00	3.00	3.50	4.00	4.50	5.00	6.00	6.50	
Hampton Side	2 axles - single rear tires	E-ZPass Fare	\$1.05	\$1.23	\$1.40	\$1.58	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95	\$5.40	\$5.85	
		Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	
Dover Toll	2 axles - single rear tires	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	
		Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	
Rochester Toll	2 axles - single rear tires	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	
		Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	

**Back cover photo: Aerial view of the Dover Tolls on the Spaulding Turnpike.**



